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OFFICE OF FINANCIAL AND INSURANCE SERVICES
DEPARTMENT OF CONSUMER & INDUSTRY SERVICES
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COMMISSIONER

DATE: March 5, 2004

LETTER NO.: 2004-CU-02

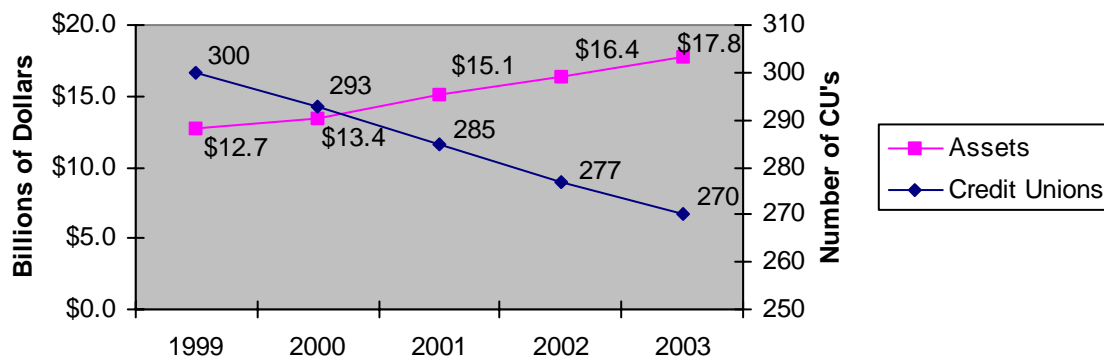
TO: The Board of Directors and Management of Michigan State-Chartered Credit Unions

SUBJECT: 2003 Fourth Quarter Financial Results

The Office of Financial and Insurance Services (OFIS) compiles call report information to monitor Michigan state-chartered credit unions, both individually, and in the aggregate. The purpose of this letter is to share some overall industry trends and highlight certain areas of particular concern based on the December 31, 2003 call report filings. The following information and analysis does not include CenCorp Credit Union.

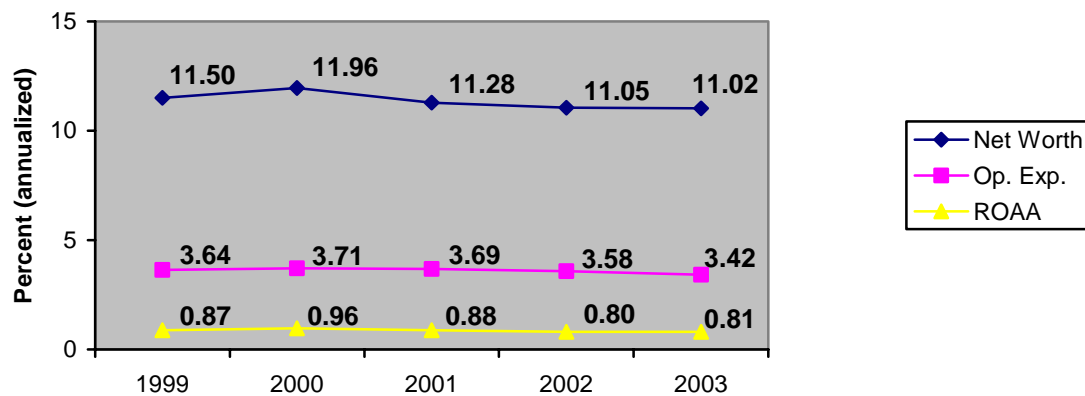
Consolidation Continues

The trend of consolidation continued for Michigan state-chartered credit unions in 2003. In the last five years, the number of credit unions has dropped from 300 to 270, while total assets grew from \$12.7 to \$17.8 billion.

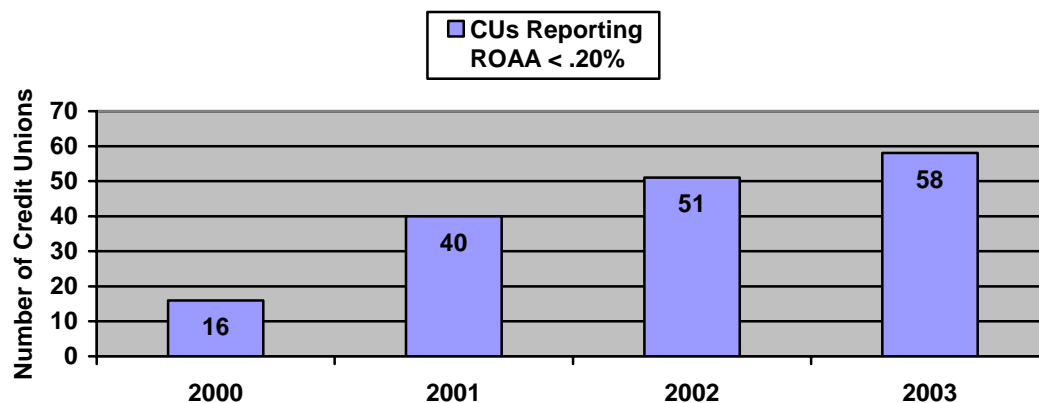


Net Worth Remains Strong, But Earnings Problems Continue

Net worth remains strong at just over 11%. Operating expense levels and return on average assets have been relatively stable over the past five years.



Many credit unions, however, continue to have weak earnings. The number of credit unions reporting an ROAA of less than .20% continued to grow. There are now 58 credit unions reporting an ROAA of less than .20%, up considerably from the 16 credit unions reporting such a low level of earnings in 2000.



Management of interest rate risk is critical, especially given the potential for rising interest rates. Member shares and deposits tend to reprice much quicker than loans. Proper balancing and pricing of assets and liabilities will help ensure adequate and sustained earnings and provide for capital maintenance.

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Asset Quality Remains Sound

The aggregate delinquency and net charge-off ratios remained stable at 0.99% and 0.47% (respectively) during the quarter. The number of credit unions reporting adverse trends in these areas declined, indicating asset quality concerns may be moderating.

Conclusion

Overall, the financial condition of Michigan state-chartered credit unions remains strong. Directors and management teams must monitor the financial condition of their credit union on an ongoing basis. Sound risk management includes timely identification of potential risks and adverse trends, and taking appropriate steps to ensure risks are properly managed.

I hope the information in this letter is helpful in making informed business decisions. Operating a financial institution safely and soundly requires diligence in risk identification, measurement, and management. The stresses evident in the December 2003 statistics highlight the continuing need for sound risk management practices.

Sincerely,

Roger W. Little, Deputy Commissioner
Credit Union Division